

General Information

INCOME ADJUSTMENTS

These are the adjustments available on the California Form 540A and some of the adjustments available for the Form 540. Refer to the Form 540 section for additional adjustments available.

State Income Tax Adjustment

California does not tax state income tax refunds. Enter the amount of any state income tax refund on Form 1040, line 10. If your clients filed Form 1040A or Form 1040EZ, enter 0 on this line.

Unemployment Compensation Adjustment

California does not tax unemployment compensation or paid family medical leave reported on federal Form(s) 1099-G and shown on the federal return. Enter the amount of taxable unemployment compensation on Form 1040, line 19.

Social Security Benefits, Tier I and II Railroad Retirement Benefit Adjustments

California does not tax:

- Social security benefits and equivalent tier 1 railroad retirement benefits on Form 1040, line 20b.
- Tier 2 railroad retirement benefits on Form 1040, line 16b.

Social security and equivalent tier 1 railroad retirement benefits require adjustment on the Schedule CA (540), line 20.

Tier 2 railroad retirement benefits require adjustment on the Schedule CA (540) line 16.

For more information on tier 2 railroad retirement benefits, see page 22, California Pension and Annuity Adjustment.

Enter the total taxable amounts of the income types above on your clients' federal return.

TaxWise Tip:

If your client has a 1099R with tier 1 or tier 2 income, make sure you "X" the "Railroad" box when entering the Form 1099R to indicate the taxable income from this 1099R qualifies for subtraction on the California Schedule CA.

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California Nontaxable Interest or Dividend Income Adjustment

California does not tax interest income from:

- United States savings bonds
- United States Treasury bills
- Any other bonds or obligations of the United States, U.S. territories, and government agency obligations specifically exempt by federal law

Add nontaxable interest amounts included on Form 1040, line 8a, and enter the total on your client's 540 (Schedule CA), line 8, column B.

Interest from municipal or state bonds from a state other than California:

Report this interest, taxable by California but not by federal, on Form Schedule CA (540). If you identify this type of interest income as tax-exempt on your client's federal return, add it back in on their state return. Enter the federal tax-exempt interest on Line 8, column C, Form Schedule CA (540).

Exempt-interest dividends from mutual funds:

Certain qualified mutual funds pay "exempt-interest dividends." If at least 50 percent of their assets consist of tax-exempt government obligations, including tax-exempt government obligations of the state of California and its municipalities, that amount of dividend is exempt from California tax. Find the tax-exempt portion of the dividend on your client's annual statement. Enter the California exempt-interest amount that exceeds the federal exempt-interest amount on Schedule CA (540), line 8, column B.

TaxWise Tip:

On the federal Schedule B, interest statement, enter a "+" in the state adjustment column, for interest that needs to be added to the state return. Place a "-" in the column for interest that is nontaxable to the state and needs to be subtracted on the state return.

California Distributions

Although the taxing method of IRA distributions is generally the same for California and federal calculations, there may be differences in the taxable amount depending on the year the client made the contribution.

If your client or their spouse contributed to an IRA in 1975, or 1982 through 1986, you may need to make an adjustment. California and federal deduction rules differed during these years. The client may owe less California tax on the distribution amount.

Consider an IRA distribution fully taxable if your client took the full deduction at the time of the contribution. If the IRA contribution was partially or fully nondeductible, then the nondeductible contribution is not taxed when your client begins taking distributions.

Since California law differs from federal law, complete the "IRA Adjustment Worksheet" on page 21 to determine California basis.

General Information**1975:**

IRA deductions disallowed for California. Federal allowed an IRA deduction.

1982 through 1986:

California and federal law differed. The maximum federal individual deduction equaled \$2,000. Active participants in qualified and government retirement plans, and persons who contributed to tax-sheltered annuities, qualified for the federal deduction. For California, the maximum deduction equaled the lesser of \$1,500 or 15 percent of earned income with an additional deduction for a "nonworking spouse," up to an overall limit of \$1,750. California disallowed all IRA deductions if an individual was an active participant in a qualified or government retirement plan or contributed to a tax-sheltered annuity.

1987 through present:

California law conforms to the federal law. Therefore, if your clients made an IRA contribution during those years, no adjustment is necessary.

California residents who were formerly nonresidents:

California law changed for taxable years beginning on or after January 1, 2002.

Under the prior law, when your client became a California resident, they received a stepped-up basis in their IRA equal to their annual contributions made while a nonresident, plus their IRA earnings while a nonresident. A nonresident's IRA basis was carried over until fully recovered. But now, under the new law, they no longer have this stepped-up basis.

The law treats a former nonresident as if they were a resident for all prior years for all items of deferred income, which includes IRAs. Therefore, a former nonresident claims a basis only for nondeductible contributions under California law for a California resident. This applies only to contributions made prior to 1987.

If your client became a California resident prior to 2002 with an unrecovered stepped-up basis carryover for 2002, restate their IRA basis using the new law.

*For more information, see
FTB Pub. 1005, Pension and
Annuity Guidelines.*

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Below is an example of how to figure a California Basis
(Part B of the IRA Adjustment Worksheet)

Part B - California Basis

(If your clients have already computed their California basis as of 12/31/07, skip to Part C.)

1. Enter total California basis as determined from the information above or from your clients' records.
2. Enter your clients' California basis recovered in prior years.
3. California basis as of 12/31/07. Subtract line 2 from line 1.

1. 900
2. 0
3. 900

This is the first yr that money was withdrawn from this IRA account

Part C - Form Schedule CA (540), line 15, Adjustment and Remaining California Basis

1. Enter your clients' taxable distribution from their Form 1040A, line 10b; or Form 1040, line 15b.
2. Enter your clients' California basis as of 12/31/08 (line 3 from above).
3. Enter the smaller of line 1 or line 2. Enter this amount on Form 540A, line 13e; or Schedule CA (540), line 15b.
4. Remaining California basis as of 12/31/08. Subtract line 3 from line 2.

1. 500
2. 900
3. 500
4. 400

Total amount that was withdrawn during 2008.

\$400 is the California Basis for next year.

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USE THIS IRA ADJUSTMENT WORKSHEET TO CALCULATE YOUR CLIENTS' IRA CALIFORNIA BASIS

IRA ADJUSTMENT WORKSHEET

Part A - Contributions and Deductions by Year

Your clients must be able to provide information to complete the chart in order for you to determine whether an adjustment is necessary. If your clients do not have this necessary information, no adjustment can be made.

Year	Contributions	Federal Deductions	State Deductions
1975			
1982			
1983			
1984			
1985			
1986			
Total			
	(A)	(B)	(C)

If your clients can provide the necessary information, subtract total California Deductions (C) from total Federal Deductions (B). This amount is your clients' California basis. If there is no difference between B and C, there is no adjustment on Form 540A, line 13e; or Schedule CA (540), line 15.

Part B - California Basis

(If your clients have already computed their California basis as of 12/31/07, skip to Part C.)

- Enter total California basis as determined from the information above or from your clients' records. 1. _____
- Enter your clients' California basis recovered in prior years. 2. _____
- California basis as of 12/31/08. Subtract line 2 from line 1. 3. _____

Part C - Form 540A, line 13e; or Schedule CA (540), line 15, Adjustment and Remaining California Basis

- Enter your clients' taxable distribution from their Form 1040A, line 10b; or Form 1040, line 15b. 1. _____
- Enter your clients' California basis as of 12/31/07 (line 3 from above). 2. _____
- Enter the smaller of line 1 or line 2. Enter this amount on Form 540A, line 13e; or Schedule CA (540), line 15. 3. _____
- Remaining California basis as of 12/31/08. Subtract line 3 from line 2. 4. _____

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California Pension and Annuity Adjustments

California and federal laws generally treat pension and annuity income the same. However, if any of the following apply, your client may have an adjustment on the California return:

- They receive a federal Form RRB 1099-R for tier 2 railroad retirement benefits and you included all or part of these benefits as taxable income on the federal return.
- They received a retirement annuity between July 1, 1986 and January 1, 1987 and elected to use the three-year rule for California purposes. The federal taxable amount is less than the California taxable amount.
- They received federally nontaxable foreign social security income.

Pension adjustments are made on Schedule CA (540), line 16, Columns B or C, as appropriate.

For more information, see the Form 540 section.

STANDARD AND ITEMIZED

Your clients decide whether to itemize their deductions or to take the state standard deduction. Use the method that gives your clients the larger deduction. Your clients may itemize for the state, the federal, or both.

Clients over age 65, who take the federal standard deduction, may receive a greater state deduction if they itemize.

If your clients are married/RDP and filing separate returns, the client and their spouse must either both itemize their deductions or both take the standard deduction.